



Commonwealth of Kentucky

**Presentation to the Governor's Blue Ribbon
Task Force on a Review of the Merit System**

September 14, 2005

HayGroup

Presented By

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Today's Agenda

- ▶ About Hay Group
- ▶ Hay Group Experience
- ▶ The Focus of Your Review
- ▶ A Model for Human Resources Effectiveness
- ▶ Addressing Major Components:
 - ✓ Classification and Compensation
 - ✓ Recruitment and Selection
 - ✓ Governance and Administration of Human Resources
- ▶ Two Case Studies of Success
- ▶ An Important Lesson Learnt
- ▶ Questions?

About Hay Group

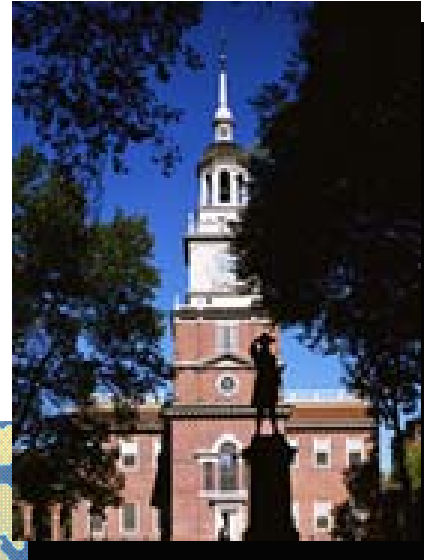


Our Mission: To help clients achieve their strategies through PEOPLE...

About Hay Group (Cont'd.)

Established in
Philadelphia in 1943

41 countries/78 cities



2,000 employees

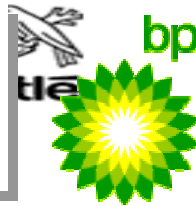
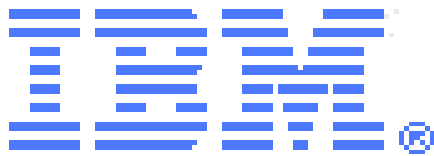
10,000+clients
Worldwide



Representative General Industry Hay Reward and Job Evaluation Clients



JOHN DEERE



AMERICAN
EXPRESS



Dun & Bradstreet



HayGroup

Hay Group Experience - State Governments

- ▶ State of Idaho
- ▶ State of Mississippi
- ▶ State of Oklahoma
- ▶ State of New Mexico
- ▶ State of South Carolina
- ▶ State of Alabama
- ▶ Commonwealth of Kentucky
- ▶ Commonwealth of Pennsylvania
- ▶ State of Louisiana
- ▶ State of Oregon
- ▶ State of Florida
- ▶ State of Delaware
- ▶ State of Minnesota
- ▶ State of New Hampshire
- ▶ State of Maine
- ▶ State of South Dakota
- ▶ State of Kansas
- ▶ State of Arizona

Hay Group Experience with the Commonwealth of Kentucky

Classification, Compensation and Benefits Project

- ▶ Significant project that addressed classification, compensation and benefits review and design (linked to EMPOWER Kentucky and House Bill **268**).
- ▶ Recommendations made relating to:
 - ✓ Classification consolidation
 - ✓ Use of a defensible method of job evaluation
 - ✓ Pay Structures
 - ✓ Benefits Cost Savings
- ▶ It is our understanding that little, if any, of the recommendations were implemented for a variety of internal reasons.

The Focus of Your Review

- ▶ is getting the attention of key leaders in a number of States
 - ✓ State of Idaho - Interim Committee
 - ✓ State of Washington – Civil Service Reform
 - ✓ State of Georgia – “Georgia Gain”
 - ✓ State of New Mexico –NMHR2001
 - ✓ State of Colorado – Personnel Reform
 - ✓ State of Louisiana – Civil Service Reform
 - ✓ State of South Carolina – the “Green Plan” document

What Are the Common Drivers of These Reviews?

- ▶ Accountability in Government legislation;
- ▶ Drive for “performance” based....;
- ▶ Desire for simplification;
- ▶ Enhance the productivity and effectiveness of managers and employees;
- ▶ Heightened awareness of “ROHRI;” and
- ▶ ... “it takes that long?”..... “you do what?”.....

Why is Understanding the Value and Effectiveness of our HR Programs Important?

It can be measured and proven of value in the private sector, but what's the value in the public sector?

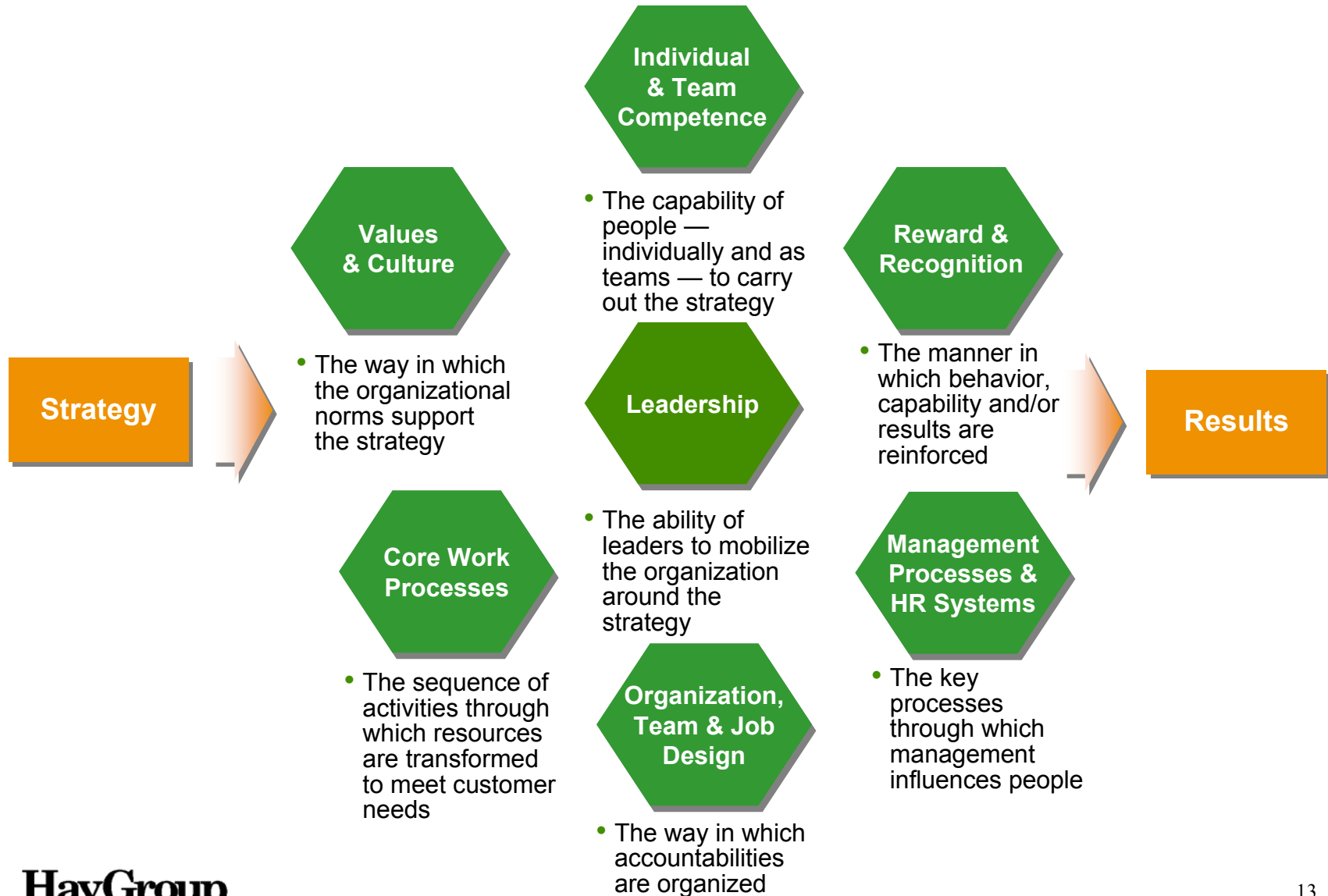
- ▶ Human resources expenditures are the “big ticket item” in the service sector in general and the public sector in particular.
- ▶ Human Resources staff are under pressure to become “business partners” (people who add value) rather than overhead (people who cost money).
- ▶ Becoming a business partner requires our ability to prove our worth and speak the language of our “customers” – dollars.
- ▶ We have “stakeholders” who view employees as a cost, rather than an asset in which we need to make an investment. “What do you mean, we need to pay that much – I can get my ranch hands for 3 and 1/4 per hour and they work hard.”

A Model for Human Resources Effectiveness



A Model for Human Resources Effectiveness

(Cont'd.)



Classification and Compensation

What Are The Issues You Face?

- ▶ Demands for less classifications;
- ▶ Demands for less grades;
- ▶ More flexibility in recruiting, testing, lists, etc.
- ▶ Demands for higher pay rates;
- ▶ Demands for creating a pay-for-performance environment from some “constituencies” and yet a resistance to a pay-for-performance culture from others;
- ▶ Demands for performance to be about how the role is performed, not just what is done; and
- ▶ Need to take a Total Remuneration approach to compensation, not just base pay.

Classification and Compensation (Cont'd.)

How Are These Issues Expressed?

- ▶ The current classifications no longer reflect the nature of today's roles;
- ▶ Many employees are misclassified;
- ▶ Minimum qualifications are restrictive;
- ▶ Pay is too low; “we can't attract nor retain;”
- ▶ There is inadequate mechanisms for rewarding employees who attain and apply new skills and knowledge;
- ▶ Professional individual contributors end up in management positions to give them a promotion because there is no career progression; and
- ▶ “We can't pay for performance.”

Classification and Compensation (Cont'd.)

What Is The Potential Fiscal Impact?

The Value Equation

1.	Number of employees: approximately 24,000		
2.	Average salary and benefits cost/employee: \$35,000*		
3.	Total payroll: \$840MM (24,000 Employees x \$35,000)		
4.	Assumed misalignment of classification and compensation that is likely to exist if 5-7 years since plan was last reviewed: 15% of employees*		
5.	Estimated misallocation of compensation: \$126MM (\$840MM x 15%)		
In addition:			
6.	Average Rate of turnover for the organization: 12% per year		
7.	Estimated percentage of turnover caused by compensation issues: 33%*		
8.	Approximate cost to replace an employee: 75% of the annual salary of the position*		
9.	Total cost of employee turnover caused by compensation issues in the organization: \$24.948MM (\$840MM x 12% turnover x 33% compensation factor x 75% of the salaries of the position)		
* Assumption (conservative)			

Classification and Compensation (Cont'd.)

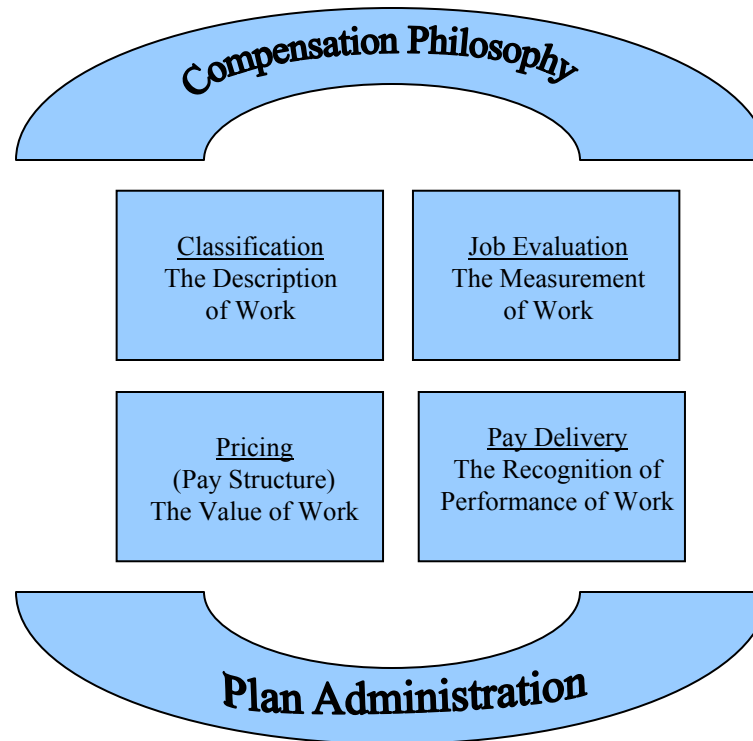
The Value Equation (Cont'd.)

1.	Number of employees:		
2.	Average salary and benefits cost/employee:		
3.	Total payroll:		
4.	Assumed misalignment of classification and compensation that is likely to exist if 5-7 years since plan was last reviewed:		
5.	Estimated misallocation of compensation:		
In addition:			
6.	Average Rate of turnover for the organization:		
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8.	Approximate cost to replace an employee:		
9.	Total cost of employee turnover caused by compensation issues in the organization:		

Classification and Compensation (Cont'd.)

Common Examples	Reward Elements	Definition
<ul style="list-style-type: none"> Quality-of-Life Affiliation Development 	Other Non-Cash Rewards	<div>TOTAL REWARD</div> <div>TOTAL REMUNERATION</div> <div>TDC</div> <div>TDC</div>
<ul style="list-style-type: none"> Cars Clubs Physical Exams 	Perquisites	
<ul style="list-style-type: none"> Retirement Health & Welfare Time off w/Pay Statutory Programs 	Benefits	
<ul style="list-style-type: none"> Stock Equity 	LTI	
<ul style="list-style-type: none"> Annual Incentive Bonus Contract 	Annual Variable	
<ul style="list-style-type: none"> Base Salary Hourly Wage 	Base Cash	

Classification and Compensation (Cont'd.)



Classification and Compensation (Cont'd.)

Some Examples of States That Have Addressed This Issue

- ▶ State of New Mexico
- ▶ State of Oklahoma
- ▶ State of Mississippi
- ▶ State of Idaho
- ▶ State of Georgia
- ▶ State of Maine
- ▶ State of Minnesota
- ▶ State of Washington
- ▶ State of South Carolina
- ▶ State of New Hampshire

Recruitment and Selection

What Are The Issues You Face?

- ▶ Major trends affecting the talent pool:
 - ✓ A demographic shift
 - ✓ An aging workforce
 - Teachers
 - Nurses
 - Public Servants
 - ✓ The decline in mentoring
 - ✓ A more mobile workforce
 - ✓ Work/Lifestyle Pressures
 - ✓ Changing Aspirations/Commitments
 - ✓ The need for more “positives” and fun in life

Recruitment and Selection (Cont'd.)

How Are Some of These Issues Expressed?

- ▶ The inability to attract qualified and quality candidates;
- ▶ Early retirements and the lose of organization history and knowledge;
- ▶ The time taken to fill positions;
- ▶ A recruitment and selection process with which today's applicants are not familiar;
- ▶ The “restrictiveness” of lists;
- ▶ “Conflict” between recruiting processes of Central HR and the needs of the Agencies; and
- ▶ Too much paperwork/lack of technology based recruiting.

Recruitment and Selection (Cont'd.)

Some Examples of States That Have Addressed This Issue

- ▶ State of Wisconsin
- ▶ State of Idaho
- ▶ State of New Mexico
- ▶ State of California
- ▶ State of Mississippi
- ▶ State of South Carolina

Governance and Administration of Human Resources

What Are The Issues You Face?

- ▶ Centralized vs. Decentralized administration;
- ▶ HR vs. “Line” management authorities;
- ▶ Role of Human Resources employees: administration vs. internal consultant;
- ▶ Role of the State Personnel Board;
- ▶ “Rules” vs. “Tools;”
- ▶ Automation of HR processes and Human Resources Information systems;
- ▶ Legislative vs. Executive Branch roles; and
- ▶ Doing it in-house vs. Outsourcing.

Governance and Administration of Human Resources (Cont'd.)

How Are Some of These Issues Expressed?

- ▶ Governance established many decades ago, often for reasons which are not relevant today;
- ▶ Central HR viewed as “enforcer of rules” rather than “enabler through tools;”
- ▶ Lack of automated processes;
- ▶ Pressure from legislators to outsource;
- ▶ Multiple “stakeholders” with potentially conflicting agendas;
- ▶ The role of Unions; and
- ▶ Attitude – “its fine for the private sector but....”

Governance and Administration of Human Resources (Cont'd.)

Some Examples of States That Have Addressed This Issue

- ▶ State of South Carolina
- ▶ State of New Mexico
- ▶ State of Idaho
- ▶ State of Oklahoma
- ▶ State of Florida
- ▶ State of Texas
- ▶ State of Georgia
- ▶ State of Colorado

Two Case Studies of Effectively Tackling Human Resources Reform

State of South Carolina

- ▶ Only State to be given an A grade for Human Resources by Governing magazine in the first two “Grading the States” survey;
- ▶ Winner of prestigious award at National IPMA Conference in 2000;
- ▶ Attracted young talent into the Office of Human Resources from the private sector;
- ▶ Continuity of successful leadership of the OHR; and
- ▶ Implemented Reform on a no-cost basis.

Two Case Studies of Effectively Tackling Human Resources Reform (Cont'd.)

- ▶ Development of 5 Year Strategic HR Plan (the “Green document”);
- ▶ Development of Performance Measures;
- ▶ Classification Consolidation;
- ▶ Grade Structure Consolidation;
- ▶ Formation of Agency Head Salary Commission;
- ▶ Adoption of competitive pay structures, particularly at Agency Head level;
- ▶ Delegated Authorities to Agencies through the development of Service Agreement contracts of performance;
- ▶ Training of HR professionals in how to be “internal business partners and consultants;”
- ▶ Head of HR acting as “Chief Marketing Officer” for Human Resources; and
- ▶ Report and Celebrate Success.

Two Case Studies of Effectively Tackling Human Resources Reform (Cont'd.)

State of New Mexico

- ▶ The Accountability in Government Act (1998) sought to improve the effectiveness of state government operations through the mechanisms of program and performance-based budgeting;
- ▶ Vision of the State Personnel Director aligns human resource management with program and budget management to fulfill the dual promise of the Personnel Act and the Accountability in Government Act;
- ▶ Aimed at increasing the productivity and effectiveness of the classified service; and
- ▶ To be achieved by heightening the effectiveness of managers through improved human resources systems, tools, skills and delegated authorities.

Two Case Studies of Effectively Tackling Human Resources Reform (Cont'd.)

▶ Merit Based Opportunity

- ✓ Fewer more generic classifications with use of working titles;
- ✓ Separate Technical Occupation Group classifications from Management Classifications;
- ✓ Recruitment by working title based on JRQS (job related qualification standards); and
- ✓ Applicants “tested” or assessed against JRQS.

▶ Compensation

- ✓ Redefinition of Comparative/Competitive Market;
- ✓ Redefinition of Policy level in the market;
- ✓ Pay Band Structures;
- ✓ Annual Pay Structure Movement; and
- ✓ Policy Based on Total Compensation, not just base pay.

Two Case Studies of Effectively Tackling Human Resources Reform (Cont'd.)

▶ Training and Development

- ✓ Creation of Management Training and Development Program (funded by the Legislature);
- ✓ Creation of a “Senior Executive Service” component; and
- ✓ Consolidation of training efforts.

▶ Performance Audit and Accountability

- ✓ Development and Implementation of Authorized Agent;
- ✓ Establishment of HR Quality Assurance and Agency Relations Unit;
- ✓ Changing of the Performance Management Plan and enhanced linkage between pay and performance; and
- ✓ Re-definition of the role of the State Personnel Board and re-writing of the entire Personnel Rules.

Two Case Studies of Effectively Tackling Human Resources Reform (Cont'd.)

- ▶ New Automated Human Resources System
 - ✓ While not within the scope of NMHR2001, it was recognized by all key stakeholders that such a system would be integral to the future success on new initiatives of State Personnel.
 - ✓ Importance of the linkage between strategic direction of technology and the strategic direction of human resources.

Finally, an Important Lesson Learnt

▶ **Involve Key Stakeholders**

- ✓ Policy Advisory Group
- ✓ Steering Committee
- ✓ Project Teams

▶ **Four Examples**

- ✓ State of Idaho
- ✓ State of Mississippi
- ✓ State of Oklahoma
- ✓ State of New Mexico